

## Message Text

SECRET

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 160800Z JUL 74

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 7773

SECTREASURY WASHDC IMMEDIATE

S E C R E T SECTION 1 OF 2 CAIRO 5200

EXDIS

E.O. V11652: GDS

TAGS: OVIP EG

SUBJ: SECRETARY SIMON'S VISIT WITH MINISTER FINANCE

1. SECRETARY SIMON ACCOMPANIED BY AMBASSADOR, UNDER SECRETARY BENNET, ASSISTANT SECRETARY PARKSY AND OTHER MEMBERS OF PARTY, MET WITH MINFIN ABDEL FATAH AND SEVERAL AIDES FOR ONE HOUR AND FIFTEEN MINUTES ON JULY 15, FOLLOWING MEETING WITH DEP NRIMIN HEGAZI. SESSION CONSISTED OF EXCHANGE OF INFORMATION IN CORDIAL ATMOSPHERE.

2. SECRETARY SIMON BEGAN WITH BRIEF REFERENCE TO SOME SIMILARITIES BETWEEN SITUATION NOW FACED BY GOE AND PROBLEMS WHICH USG HAS FACED IN THE PAST, I.E. THE PROBLEM OF CHANGING POLICES WHICH ENCOURAGE CONSUMPTION AND DISCOURAGE SAVINGS, THE PROBLEM OF REMOVING THE DISTORTING EFFECTS OF PRICE CONTROL AND ALLOCATION SYSTEMS, AND THE PROBLEM OF CONTAINING INFLATIONARY PRESSURES WITHOUT DAMAGING THE ECONOMY. US RECOGNIZES THE SOCIOLOGICAL AND POLITICAL DIFFICULTIES RAISED BY EFFORTS TO SOLVE THESE PROBLEMS IN EGYPT BUT NONETHELESS FEELS THAT GOE HAS DECIDED TO "TURN THE CORNER."

3. SECRETARY SIMON EMPHASIZED THAT THE PURPOSE OF HIS VISIT WAS TO EXPLORE MEANS BY WHICH WE COULD ASSIST EGYPT IN STRENGTHENING ITS FINANCIAL SITUATION. THE US IS DETERMINED TO BE OF HELP, BUT HE HAD COME TO LEARN HOW

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THIS MIGHT BE DONE, NOT TO GIVE A LECTURE.

4. UNDER SECRETARY BENNET WAS THEN ASKED TO COMMENT ON THE SUBJECT OF EXTERNAL DEBT AND STABILITY. HE RECALLED THE WORLD BANK'S STRESS ON "CONDITION" FOR MAXIMUM ASSISTANCE FROM THE IBRD AND OTHER INTERNATIONAL ORGANIZATIONS: ARRANGE REALISTIC PRIORITIES, IN USE OF FOREIGN EXCHANGE TO MAKE OPTIMUM USE OF EXISTING IDLE EQUIPMENT, REDUCE RELIANCE ON SHORT TERM FOREIGN DEBT, WHILE AT THE SAME TIME SEEKING FINANCIAL ASSISTANCE FROM OTHER POTENTIAL DONORS.

5. BENNET SUGGESTED THAT ONE SIMPLE MEASURE TO IMPROVE EGYPT'S CREDIT STANDING IN GENERAL AND SPECIFICALLY TO FACILITATE ASSISTANCE FROM THE US IN TERMS OF FAVORABLE CONGRESSIONAL ACTION ON THE AID FUNDS REQUESTED FOR EGYPT AS WELL AS A MORE ACTIVE EXIM PROGRAM, WOULD BE TO "CLEAR THE SLATE" OF THE SMALL REMAINING DEBTS TO THE US. THIS COULD EASILY BE DONE IMMEDIATELY WITH NO APPRECIABLE ECONOMIC COST TO EGYPT. IN RELATION TO THE \$56 MILLION

IN LOC CURRENCY IN ARREARS, BENNET POINTED OUT THAT THE US ALREADY HOLDS MORE EGYPTIAN POUNDS THAN IT IS LIKELY TO USE IN THE NEAR FUTURE, SO THAT REPAYMENT NOW WOULD MERELY CHANGE A PAYABLE FROM THE GOE TO A PAYABLE BY A BANK OWNED BY THE GOE. IN OTHER WORDS REPAYMENT WOULD BE IN REALITY ONLY A BOOKKEEPING CHANGE. THE PAYMENT WOULD,

HOWEVER, DO AWAY WITH ONE LARGE AREA IN WHICH THE GOE IS IN DEFAULT. HE ALSO POINTED OUT THAT THE \$300,000 NOW IN ARREARS ON DOLLAR DEBT IS ROM SMALL THAT IT IS RIDICULOUS

FOR THE GOE NOT TO IMPROVE ITS RATING BY COMPLETER PAYMENT.

6. BENNET WENT ON TO SAY THAT THE US WOULD LIKE TO WORK WITH THE GOE IN OTHER WAYS TO ATTEMPT TO IMPROVE ITS CREDIT RATING. HE POINTED OUT THAT IN TALKING WITH OTHER GOVERNMENTS IT WAS IMPORTANT TO STRESS PROSPECTS AND OPPORTUNNTIES OVER TIME WITHOUT GIVING THE IMPRESSION THE GOVERNMENT'S FINANCES ARE NOW IN EXTREMES. IN THIS CONNECTION, HE ADDED, IT WOULD BE HELPFUL IF EVERYONE KNEW WHAT THE DEBT  
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BURDEN WAS, SINCE THERE IS A TENDENCY TO THINK IT IS FAR LARGER, WHEN IT IS A SECRET.

7. AT THIS POINT, ABDEL FATAH PRODUCED A FILE AND BEGAN TO READ OFF A SERIES OF NUMBERS THAT HE SAID WERE HIS MINISTRY'S FIGURES ON THE SUBJECT. THOSE PRESENT AT THE MEETING DID NOT AGREE FULLY AS TO JUST WHAT HE SAID, DUE TO A NUMBER OF PROBLEMS RELATED TO HIS

PRESENTATION, BUT THE IMPRESSION WAS THAT THE FOREIGN CURRENCY DEBT IS NOW ABOUT LE ONE BILLION, NOT INCLUDING MILITARY ASSISTANCE FROM THE BLOC. ABDEL FATAH STATED HE WAS PREPARED TO FURNISH A COPY OF THE DATA, WHICH THE GOE CONSIDERS CONFIDENTIAL. THE EMBASSY WILL FOLLOW UP ON THIS POINT. PRESENT PLANS ARE TO PUBLISH SUCH INFORMATION ONLY WHEN THE NEW LONG-TERM PLAN IS PUBLISHED.

8. THE MINISTER THEN SPOKE BRIEFLY ABOUT DEVELOPMENT PLANS, AND SAID THAT EGYPT HOPES TO HAVE A FIVE-YEAR PLAN (1976-1980) BY THE END OF THIS YEAR; 1975 ITSELF WILL BE DEVOTED TO FINISHING THE PROJECTS LEFT INCOMPLETED FROM PAST YEARS.

9. SECRETARY SIMON POINTED OUT THAT THE US CAN OFFER ASSISTANCE TO HELP PUT THE PLAN IN PLACE, THROUGH THE ASSIGNMENT OF EXPERIENCED PERSONNEL WITH TECHNICAL ABILITIES IN THE NECESSARY FIELDS. HE THEN ASKED MR. NOOTER FOR A DESCRIPTION OF THE CURRENT STATUS OF THE AID PROGRAM.

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10. NOOTER WENT QUICKLY OVER THE SITUATION IN CONGRESS AND DETAILED PRESENT THINKING ON THE USE TO WHICH THE PROPOSED \$250 MILLION WOULD BE PUT. (THE MINISTER AND HIS STAFF TOOK NOTES ON THE DIFFERENT FIGURES). HE ALSO DISCUSSED THE STEPS THAT WILL BE TAKEN TO EXPLAIN AID'S SYSTEM AND PROCEDURES AND ASSIST THE EGYPTIAN SIDE IN WORKING WITH THEM. NOOTER WENT ON

TO SAY THAT HE WOULD BE RETURNING TO EGYPT IN A SHORT TIME TO TAKE A BETTER LOOK AT WHAT THE US CAN DO, IN PARTICULAR WITH REGARD TO THE \$150 MILLION EARMARKED FOR SUEZ RECONSTRUCTION.

11. AT THIS POINT, SECRETARY SIMON ASKED WHAT EGYPT'S PRIORITIES WERE IN THE SUEZ AREA. ABDEL FATAH REPLIED THAT THE FIRST ORDER OF BUSINESS WAS THE INFRASTRUCTURE OF THE SUEZ AREA, SPECIFICALLY THE PORTS THEN TRANSPORTATION AND COMMUNICATION. FOR THE NATION AS A WHOLE, HE ADDED, FIRST PRIORITY HAD TO BE THE RESTORATION OF IDLE INDUSTRIAL CAPACITY RELATED TO EXPORT INDUSTRIES, AND THEN FOR IMPORT SUBSTITUTION INDUSTRIES. THE EXPANSION OF THE PARALLEL MARKET WOULD BE OF ASSISTANCE IN THIS EFFORT HE SAID, AS WELL AS THE NEW INVESTMENT LAW.

12. SECRETARY SIMON MENTIONED THAT UNTIL THIS MORNING HE HAD THOUGHT THAT A FOREIGN INVESTOR COULD ONLY REPATRIATE 60 PERCENT OF HIS PROFIT, BUT HE HAD  
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BEEN TOLD IN THE MEETING WITH HEGAZI THAT THIS WAS NOT TRUE; EACH CASE WAS HANDLED SEPARATELY. IT COULD, UNDER CERTAIN CIRCUMSTANCES, BE ALL OF THE PROFIT, WITH A SMALL PART SET ASIDE FOR REINVESTMENT. THE MINISTER AGREED THAT THIS WAS THE CASE AND GAVE SECRETARY SIMON A COPY OF THE NOT-YET RELEASED ENGLISH TRANSLATION OF THE LAW.

13. MR. PARSKY SUGGESTED THAT A NEW MECHANISM MIGHT BE NEEDED TO ASSIST IN PUTTING US CAPITAL AND KNOW-HOW AND EGYPTIAN NATURAL RESOURCES AND LABOR TOGETHER. SECRETARY SIMON STATED THAT IT SEEMED TO HIM THERE IS A NEED FOR A NEW MECHANISM TO AID IN THE PREPARATION OF PROPER FEASIBILITY STUDIES FOR PROJECTS, SO AS TO HAVE TIME AND EFFORT. ABDEL FATAH REPLIED THAT SUCH MECHANISMS DID EXIST, FOR EXAMPLE THE AGENCY FOR ARAB AND INTERNATIONAL ECONOMIC COOPERATION, BUT WILL NEED STRENGTHENING.

14. THE MINISTER WENT ON TO SAY THAT THE GOE COULD USE HELP IN OTHER FIELDS AS WELL, CITING IN PARTICULAR THE PROBLEM OF PREPARING THE BUDGET. HE WOULD LIKE TO HAVE PERFORMANCE BUDGETS ON STATE ENTERPRISES, HE SAID WHICH WOULD GIVE HIM A BETTER OPPORTUNITY TO DETERMINE HOW AN ORGANIZATION IS REALLY DOING, RATHER THAN THE SERIES OF NON-DESCRIPTIVE ESTIMATES HE NOW RECEIVES. SECRETARY SIMON SAID THAT THE JOINT WORKING GROUPS WOULD PROVIDE AN OPPORTUNITY TO WORK ON SUCH PROBLEMS. HE SUGGESTED THAT THESE GROUPS IN HIS VIEW SHOULD PROBABLY BE REORDERED TO ACCOMPLISH THEIR PURPOSE

AND THAT HE WOULD WISH TO DISCUSS THAT SUBJECT FURTHER. HE THEN ASKED ASST GENERAL COUNSEL BRADFIELD TO DISCUSS THE POSSIBLE ADVANTAGES OF A TAX TREATY BETWEEN THE TWO COUNTRIES.

15. BRADFIELD SAID SUCH A TREATY ACTS AS AN INCENTIVE TO PRIVATE INVESTMENT SINCE IT HELPS A BUSINESSMAN KNOW IN ADVANCE WHAT THE TAX SITUATION IS, PARTICULARLY IN COMPLICATED BUSINESS SITUATION INVOLVING SUBSIDIARIES AND LICENSING ARRANGEMENTS. KNOWLEDGE OF SUBJECTS LIKE RATES AND KINDS OF TAXES ARE VERY HELPFUL TO BUSINESSMEN AND ALSO FACILITATE EXCHANGES OF TEACHERS AND SCIENTIST. WOULD ALSO BE OF POTENTIAL BENEFIT.

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16. THE MINISTER AGREED AND SAID THAT THE GOE IS CURRENTLY REDOING ITS TAXES. HE IS TO SUBMIT A NEW TAX LAW TO THE PEOPLE'S ASSEMBLY BY OCTOBER TO REPLACE THE FIVE DIFFERENT SCHEDULES OF TAXES, EACH WITH A SEPARATE INSPECTION FORCE. THERE IS NO REAL PERSONAL INCOME TAX AT PRESENT, HE ADDED, SINCE ITS ACCOUNTS FOR ONLY ABOUT FIVE PERCENT OF TOTAL TAX REVENUES. THE GOE EXPECTS TO INCREASE TAX REVENUES SUBSTANTIALLY IN THE NEAR FUTURE, MAINLY THROUGH IMPROVED COLLECTION PROCEDURES. THE MEETING ENDED WITH A SUGGESTION THAT A REPRESENTATIVE OF THE MINISTRY COME TO THE US VERY SOON TO DISCUSS TAX ADMINISTRATION.

17. TREASURY UNDERSECRETARY BENNET HAS SEEN AND APPROVED ABOVE MESSAGE.  
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## Message Attributes

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